



The President's Daily Brief

June 21, 1976

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~~Top Secret~~ 25X1

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June 21, 1976

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Lebanon:

[REDACTED]
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Fighting picked up over the weekend near Beirut and elsewhere. (Page 2)

Iraq-Syria:

[REDACTED]
[REDACTED]
[REDACTED] (Page 2)

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Saudi Arabia - Egypt - Syria:

[REDACTED]
[REDACTED] (Page 3)

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Jamaica: Prime Minister Manley's imposition of a state of emergency will probably be aimed chiefly at his political opposition. (Page 4)

Notes: Vietnam; South Africa; Italy (Pages 6 and 7)

At Annex we review the serious economic problems in Italy.

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LEBANON:

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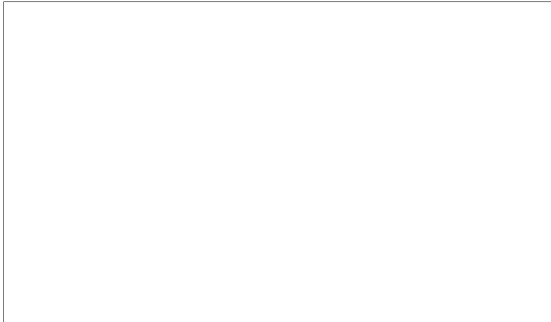
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Fighting intensified yesterday as Syrian forces attacked Palestinian and leftist positions near Beirut and in central and southern Lebanon.



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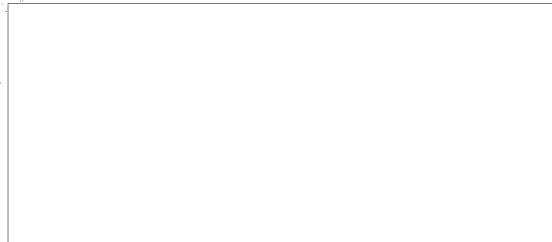
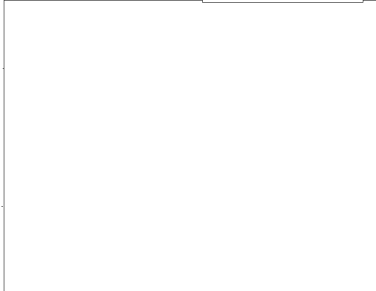
According to the US embassy in Beirut, the current situation suggests both sides are preparing for increased fighting. The Syrians are said to be expanding their positions south of Ayn Sawfar on the road to Damascus. The Palestinians reportedly are mining roads in the Syrian path.

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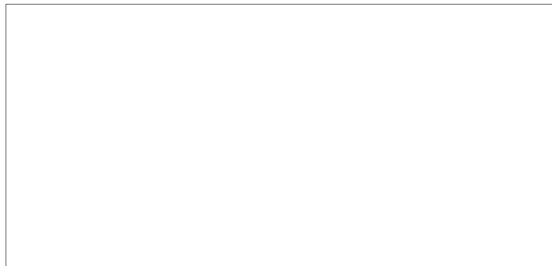
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IRAQ-SYRIA:



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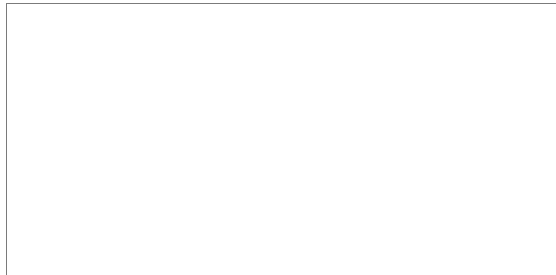


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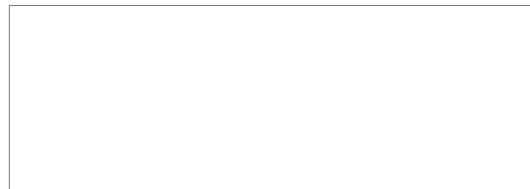
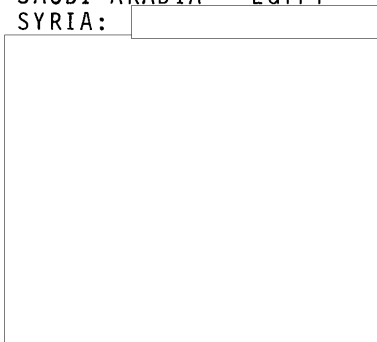
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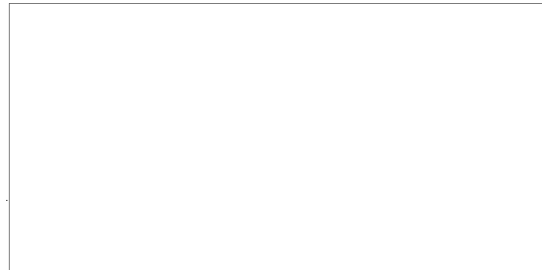
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SAUDI ARABIA - EGYPT -
SYRIA:



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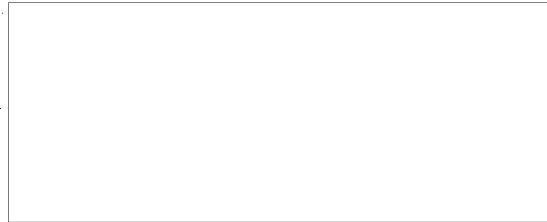


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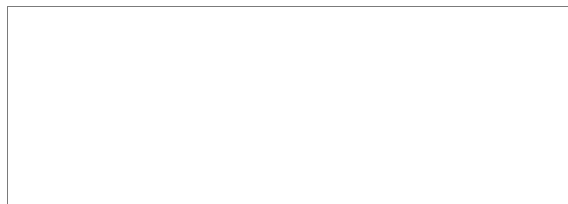
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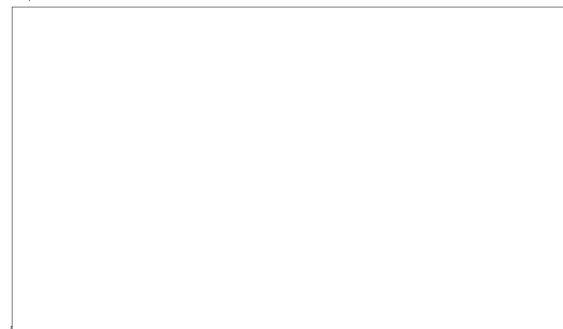


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JAMAICA: The state of emergency imposed by Prime Minister Manley on Saturday will probably be directed primarily against the opposition Jamaica Labor Party. Press reports indicate that several opposition leaders have already been arrested.

Manley attributed his action to the need to combat spiraling violence and resulting economic decline. Gang warfare between armed supporters of the two political parties has turned the slums of Kingston into a battle zone, and crime is rampant. Last week, the Peruvian ambassador was killed in an apparent robbery attempt.

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Manley's reference in a brief statement to "false allegations" and "rumor mongering" detrimental to the government may have been directed at the US. He has charged repeatedly in recent weeks that the US is engaging in a campaign to "destabilize" Jamaica.

Manley asserted that the state of emergency will not interfere with the national elections that must be held before next spring. He seemed to imply, however, that it will remain in force at least until then. He made little effort to allay fears that it will be enforced in a partisan manner.

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NOTES

New measures decreed in South Vietnam since the national elections on April 25 strongly suggest that the relatively lenient treatment of uncooperative elements will soon end. Most foreign observers have left Saigon.

The new measures provide for severe punishment, including the death penalty, for persons who have violated the regime's economic and security regulations, served as "lackeys" of the US, or deliberately fled to foreign countries.

A debate has developed within Vietnam as to the pace at which the Communists should consolidate their hold on the south. Public commentaries indicate that the issue remains contentious, with Communist authorities from the south tending to advocate the gradual approach. For the time being, those favoring a faster pace clearly hold the upper hand.

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The South African government's country-wide ban on demonstrations expressing sympathy for those killed and injured in last week's riots seems to be effective.

No serious clashes have been reported in the black residential areas around Johannesburg since Friday. Casualties--mostly black--probably have exceeded 100 dead and 1,000 injured.

The UN Security Council on Saturday passed a resolution by consensus condemning the South African government's use of violence and calling upon Pretoria to move quickly to end racial demonstration.

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Voting for the new Italian parliament will end today at 8 a.m. EDT.

In the first day of voting yesterday, 76.3 percent of the electorate--including an estimated 400,000 emigrant workers who returned to Italy to vote--cast ballots. Although fragmentary returns may be available this morning, the final official tally, including the distribution of seats among the parties, will not be known until tonight or tomorrow morning.

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ITALY

The post-election government will inherit an economic situation worsened by years of neglect. In Italy's fragmented political system, no party has had the power or the determination to impose the austerity needed to deal with the country's economic ills.

Center-left governments largely have ignored the major structural and institutional defects that underlie Italy's economic difficulties and magnify cyclical downturns. These defects, which defy short-term solutions, include:

- Chronic underuse of labor.
- Inadequate social services.
- Limited financial markets, handicapped by regulations designed to accommodate the financing of the public debt.
- Persistent regional income gaps between North and South.
- The increasing dependence of investment and production on debt-ridden state enterprises.
- A cumbersome and inefficient fiscal system.

Because of the political power acquired by Italian labor unions, the proportion of national income accruing to wage earners rose from 56 percent in the late 1960s to more than 70 percent last year. Since 1970, unit labor costs have climbed 16 percent annually, the highest rate among major industrial countries.

The sliding scale--Italy's mechanism for linking wages to prices--makes it practically impossible to reduce the real earnings of workers. Instead, prices and wages have been locked in an inflationary spiral.

The Lira and Inflation

The fruits of Italy's patchwork policies have been a weak lira and rampant inflation. Following the

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imposition of the import deposit scheme in early May, the lira has hovered in the 840-860 range against the dollar, holding the trade-weighted depreciation of the lira since mid-January to 20 percent.

As a legacy of the vain battle to save the lira, the new government will inherit an estimated foreign debt of \$16 billion. New lines of credit established through the European Community and the Bank of International Settlements in May will raise that figure \$1.1 billion.

This year alone, Rome is scheduled to repay \$3.5 billion in interest and principal. The largest repayment due is \$2 billion to West Germany on a 1974 gold-backed loan.

Although lira depreciation has restored the competitiveness of Italian exports to 1973 levels, it has so far done little to benefit the trade account. The seasonally adjusted deficit for the first four months of 1976 totaled \$1.3 billion, compared with \$1.2 billion in September-December 1975.

Inflation, which averaged 17 percent in 1975, has accelerated to a 30-percent annual rate, as lira devaluation has boosted costs of imported fuels and foods. Monthly jumps in the February-April wholesale price index are the largest changes since the 1973-1974 oil price hikes.

On the positive side, the recession apparently is over. After dropping 9.7 percent last year, industrial output has risen 10 percent (seasonally adjusted) since December. Italian exporters are seeking new orders, eager to sell now before the rising costs of labor and imported raw materials can erode the benefits of the lira's fall.

Unemployment

Despite the rise in production, unemployment continues to creep up. Because union strength and labor legislation have made it difficult to lay off workers, unemployment officially is only 3.5 percent. The total number of workers employed less than full time, however, increased 27.6 percent in 1975. These workers comprise 5.6 percent of the labor force.

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The large number of young people among the unemployed--wooed successfully by the nondemocratic parties--represents a dangerous element of social discontent.

The Post-election Period

Economic events after the elections cannot be predicted with any certainty. The key to economic development will be the reactions of Italian businessmen and foreign creditors, both of whom will be jittery. The longer it takes to form a government and the greater the role given the Communists in that government, the larger the outflow of capital.

If the election results in a new center-left government with indirect Communist participation, only a marginal shift in Italy's social and economic orientation would occur.

With Communists excluded from key ministerial posts, foreign and local businessmen would feel assured that nationalizations or stringent planning guidelines would be unlikely. Many would view Communist support from outside the government as a means of enhancing the ruling coalition's credibility. Under these circumstances capital flight probably would be short-lived.

With the Communists sharing at least partial responsibility for government actions, the Socialists would be more inclined to join with the Christian Democrats in an effective austerity program. The Communists, moreover, might convince the unions to accept some type of voluntary wage restraint. The price of Communist support for such a program probably would involve revision of spending priorities in favor of improved social services, tougher taxation of income, and a greater say for labor unions in private investment decision.

Whatever the election outcome, economic recovery will have to proceed slowly. Public investment in social services and export demand seem likely to provide the main impetus for growth. Precautionary saving patterns, newly imposed taxes, and high unemployment will restrain consumer spending, while public operating expenditures are expected to rise only slightly. Political uncertainty, substantial spare capacity, and tight credit should keep private fixed investment depressed.

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